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SUBJECT: BRAZIL - GROWING RECOGNITION OF IMPORTANCE OF PROMOTING INNOVATION OPENS WAY FOR GREATER U.S. COOPERATION

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¶1. (SBU) SUMMARY. The Government of Brazil (GOB) and the private sector have identified promoting innovation as a key priority. Many of the Mission's governmental interlocutors view innovation as pivotal to accelerating Brazil's continued development and economic success. Working with the GOB on innovation presents an opportunity for the USG to further its on-going scientific and technological cooperation and science diplomacy with Brazil. It simultaneously presents the USG with an opportunity to pursue its interests in intellectual property rights (IPR) by demonstrating their importance to creating an innovation-friendly business environment. Moreover, increasing collaborative research and development (R&D) and Small Business Innovative Research (SBIR) projects could be a boon for both countries. END SUMMARY.

INNOVATION: THE TOPIC OF THE DAY

¶2. (SBU) Innovation, and a desire to promote it, is a frequent topic of conversation with Mission Brazil's interlocutors within the GOB. Many Brazilian agencies, including the Ministry of Science and Technology (MCT), the Ministry of Exterior Relations (MRE), the Ministry of Development, Industry and Foreign Commerce (MDIC), the Ministry of Health (MS), and the Brazilian Agency for Industrial Development (ABDI), list increasing innovation within Brazil as one of their top priorities. This need is acutely felt because Brazil, despite having world class scientific talent, has not been a leader in innovation and commercializing new products and ideas.

¶3. (SBU) In most innovation related conversations, the Mission's interlocutors cite the United States as the world's leader in innovation, and they see partnership with the USG and other U.S. groups as valuable in finding a way to better promote innovation in Brazil. Some interlocutors, with a more nuanced understanding of the concepts behind innovation, realize that the U.S. experience is different than that of many other countries, and for historical and institutional reasons would not be 100% applicable to Brazil, but they nonetheless see the United States as a partner that can help in their efforts.

THE CHALLENGES - TRADITION AND FINANCE

¶4. (SBU) A fundamental obstacle to improving the innovative environment in Brazil relates to the existing stove piping of academic, business and governmental cultures. Professors' and academics' careers are based on their ability to generate new

discoveries in the basic sciences for publication in international journals, or to help their graduate students develop academically. Professors openly admit that they have little expertise in administration, financial management, entrepreneurship, and IPR. This plays a strong role in the fact that comparatively few Brazilian academics apply for patents for their discoveries. According to an oft-cited statistic, Brazil is responsible for 2% of scientific publications in the world, but only 0.2% of patents. Thus innovation in Brazil is 10 times lower than their participation in scientific production. The patenting process in Brazil is time-consuming and professors do not see it as their role, or worth their time, to be involved in this process. Some Mission contacts have also indicated that there is a perception that patents do not create enough benefit to be worth the effort required to secure one.

¶ 15. (SBU) On the other side of the equation, most Brazilian businesses do not have a tradition of conducting research and development (R&D). Some large firms, such as the oil giant Petrobras, do spend a significant amount of money on R&D, but small and medium-sized companies rarely make such an investment. This is unlike the experience of the United States and many other developed nations, where small start-ups are very likely to invest in R&D, as their ability to bring a new and innovative product to market is what will ensure their success and survival. In a country ranked 129 out of 183 economies in the World Bank Doing Business 2010 report, with 120 days needed to start a business, 2,600 hours needed to prepare and file taxes, a cumbersome and costly labor system, and four years needed to close a business, the incentives and attractiveness of opening a start-up company, and devoting money to R&D in an existing SME, are notably hampered.

¶ 16. (SBU) The disconnect between researchers and industry is not the only obstacle to promoting an innovation culture. The immature state of the venture capital system in Brazil is also cited by some experts as a limiting factor to innovation in Brazil. According to

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Fernando Rizzo and Antonio Galvao, Directors at the Center for Strategic Studies and Management (CGEE), there is a nascent venture capital system in Brazil, but clearly not nearly as developed as the venture capital system in the United States. Additionally, they claim that there is no such thing as angel investing, or other critical mechanisms that support innovative, start-up companies in high-risk endeavors.

IPR: PROTECTION NEEDS STRENGTHENING

¶ 17. (SBU) The lack of a strong intellectual property rights (IPR) culture in Brazil is also a significant problem for the promotion of an innovative environment. Despite some progress on enforcement against piracy and counterfeiting and an increased willingness to discuss IPR protection under the umbrella of innovation, some within the GOB see IPR protection as an optional tool for economic development or even a barrier, rather than a critical catalyst for innovation. The IPR conversation in Brazil has two competing threads: a relatively positive attitude on copyright and trademark enforcement (though improvements in criminal counterfeiting penalties should be enacted), and an ambiguous attitude toward patent protection. The MRE has attempted to delink the innovation dialog from IPR discussion.

¶ 18. (SBU) In the pharmaceutical sector, Brazil often displays outright hostility towards patents. Brazil does have some excellent medical researchers and laboratories. In fact, the National Institutes of Health (NIH) enjoys long-standing research ties with Brazil, supporting over a hundred joint research activities each year with about USD 28 million, the most in the Western Hemisphere. However, Brazil's national health system seeks to lower costs of drugs and support generic production. In one case in 2006, the GOB used the public emergency provision to require compulsory licensing of a patent on an HIV/AIDS medicine. In April Brazil and a handful of other developing countries suggested in their plenary statements at a meeting of organized under the UN Framework Convention on Climate Change (UNFCCC) that they would like any new climate change agreement to provide for an exemption for developing countries from

patent protection for environmental/green technology patents as a way of lowering the cost of reducing greenhouse gas emissions.

GOVERNMENT R&D AND INNOVATION PROMOTION EFFORTS

¶9. (SBU) The distance between the businesses providing the funding and the researchers doing the work undermines the drive to produce commercial results. One effort by the GOB to promote innovation is a system under which companies may invest funds into R&D in order to benefit from significant tax breaks. The GOB gives these tax benefits to companies that invest two percent of their profits into R&D. The research must be performed by academic research facilities that are registered with the Ministry of Science and Technology (MCT) rather than in-house R&D units or contractors. For example, the Federal University of Rio de Janeiro's Coimbra Institute of Post-Graduate and Engineering Studies (UFRJ-COPPE) Director recently told ESTH Officer that UFRJ-COPPE receives almost 50% of its funding from industry sources. Their largest customer is Petrobras, and they are receiving sufficient funds to build a new research facility. One contentious aspect of this effort is the stipulations that a portion of the two percent must go to a governmental S&T fund, rather than toward company related research. Company executives have complained to Embassy officers that this stipulation has a distorting effect on R&D spending.

¶10. (SBU) MCT also works with or through other agencies to promote entrepreneurship among innovators and small business innovation. The Brazilian Innovation Agency (FINEP), a division of MCT, has made promoting innovation a priority. FINEP has a variety of programs and funding vehicles designed to help small businesses to become more innovative. Some of its programs are purely financed by FINEP, while others are partnerships in which FINEP works with investors and private equity funds to secure the financing that small innovative firms need to grow and thrive. There are, however, some complaints that support from FINEP and other government programs for small companies are not well distributed. According to Mauricio Schneck, the International Relations Advisor for the Brazilian Association of Science Parks and Business Incubators (ANPROTEC), FINEP's programs for small businesses suffer from poor implementation and FINEP's planning and awarding process is out of sync with the emerging venture capital cycle in Brazil, which causes problems for business trying to obtain FINEP's support.

¶11. (SBU) MCT also works extensively with the Center for Strategic Studies and Management (CGEE). CGEE is a think tank that is not technically government run or funded, but that has a majority of its contracts with the government and that also routinely employs

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government employees to round out its staff. CGEE has completed a wide variety of studies for MCT and other government agencies to help them identify policies and other actions that the government can take to encourage innovation.

¶12. (SBU) The Brazilian Agency for Industrial Development (ABDI) is a public-private agency charged since 2004 with implementing the Industrial Policy. Among ABDI's programs, two focus specifically on innovation. The program for "Production Development and an Innovative Environment" aims to facilitate access to tools for development and innovation, for example by the implementation of an "innovation web portal" and development of a national network of public and private agents involved in industrial development and innovation. Another program supports the development and implementation of pro-innovation policies in strategic industries such as nanotech, biotech, and biofuels.

¶13. (SBU) Beyond the agencies mentioned above, there are other MCT agencies (such as the National Council of Scientific and Technologic Development - CNPq) as well as agencies in other Ministries, including the Ministry of Development, Ministry of Agriculture, and Ministry of National Integration, that are engaged in research and innovation related activities. The Presidency of the Republic launched in 2008 the Policy of Productive Development ("Politica de Desenvolvimento Produtivo" or "PDP") Program with the same target.

¶14. (SBU) The large number of National Science Foundation, National Institutes of Health, and other USG grants that are carried out in cooperation with Brazilian researchers is a testament to the degree to which their scientific abilities are valued by their U.S. counterparts. USG technical agencies have also greatly benefited from our robust scientific and technological cooperation. This cooperation increasingly includes conversations about promoting applied science (rather than merely focusing on basic research), incentivizing entrepreneurship among researchers, and commercialization of scientific and technological developments. The increased focus on these areas not only benefits the USG, but it also could create new opportunities for private sector business development. Finally, talking about innovation provides the USG with a perfect opportunity to stress the importance of IPR to an innovative environment.

U.S.-BRAZIL COOPERATION: INITIAL STEPS FORWARD

¶15. (SBU) The GOB, the Brazilian private sector and universities are seeking to learn from the U.S. experience in developing an environment supportive of innovation. ABDI is working with the Brazilian Competitiveness Movement (MBC) and the U.S. Council on Competitiveness (CoC) to organize a series of conferences that they are calling "Learning Laboratories." These conferences are part of the preparations for the group's Second U.S.-Brazil Innovation Summit, tentatively scheduled for early 2010 in Washington, D.C. The goal of these conferences and the Summit is to help academics, entrepreneurs, and government officials learn from each other's experiences and to work together to increase innovation in both countries. The U.S.-Brazil Economic Partnership Dialogue and the U.S.-Brazil Joint Commission on Science and Technology have also been working at a governmental level to identify ways in which the two governments can work together to address the need for increased innovation. The National Forum of Innovation Managers and Technology Transfer (FORTEC), which represents Brazilian universities and research institutes in innovation policies, recently met with the Mission's PTO office to provide U.S. speakers on IPR valuation and patent drafting for its annual conference to be held in October 2009.

THE WAY AHEAD

¶16. (SBU) Recently the MRE's Division for Science and Technology Cooperation (DCTEC) expressed interest in moving our cooperation on innovation to a new level. The wide variety of workshops and dialogs organized by both public and private sector entities has created a solid base for this cooperation. However, some GOB interlocutors are looking to refine their focus and concentrate on specific, more concrete, actions. One example is to start focusing on Small Business Innovative Research (SBIR) programs, where the research being done by NSF and other agencies could potentially be put into practice by financing agencies such as FINEP or FAPESP, which focus on SBIR on a strategic level. Other examples have included academic exchanges specifically aimed at researchers who specialize in applied sciences or have an entrepreneurial background; and increasing linkages between businesses and venture capital groups in both countries.

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COMMENT

¶17. (SBU) The GOB would like to have Brazilian researchers and institutes bring more innovative ideas to the market, but it has not gone far to develop a conducive environment. Top down, government-directed R&D expenditures have had limited results. Often there is an anti-commercial attitude among researchers and administrators at government-funded laboratories, which is difficult to overcome. Discussions within the GOB about innovation generally do not include the key element that governments are best suited to do: creating a level playing field that facilitates innovative activity in the private sector. GOB's ambivalence and differing views across Ministries toward the importance of IPR underpinning innovation and economic growth also impede progress.

¶18. (SBU) Still, there is an increasing awareness within the GOB and the Brazilian private sector that the current situation regarding research and innovation is not satisfactory. Brazil is not living up to its potential. Thus, today we see a growing interest within the GOB and the private sector in understanding the U.S. system better and learning what innovation promoting elements could be applicable to Brazil. Post is supportive of the GOB's efforts because this should encourage the GOB to provide greater support for IPR protection within Brazil and internationally, as well as helping foster U.S.-Brazil R&D partnerships. The prospects for genuine progress on innovation might benefit from increased coordination between the various entities involved. A cohesive innovation strategy for Brazil and more collaborative R&D and SBIR projects would be a boon for both countries. END COMMENT.

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